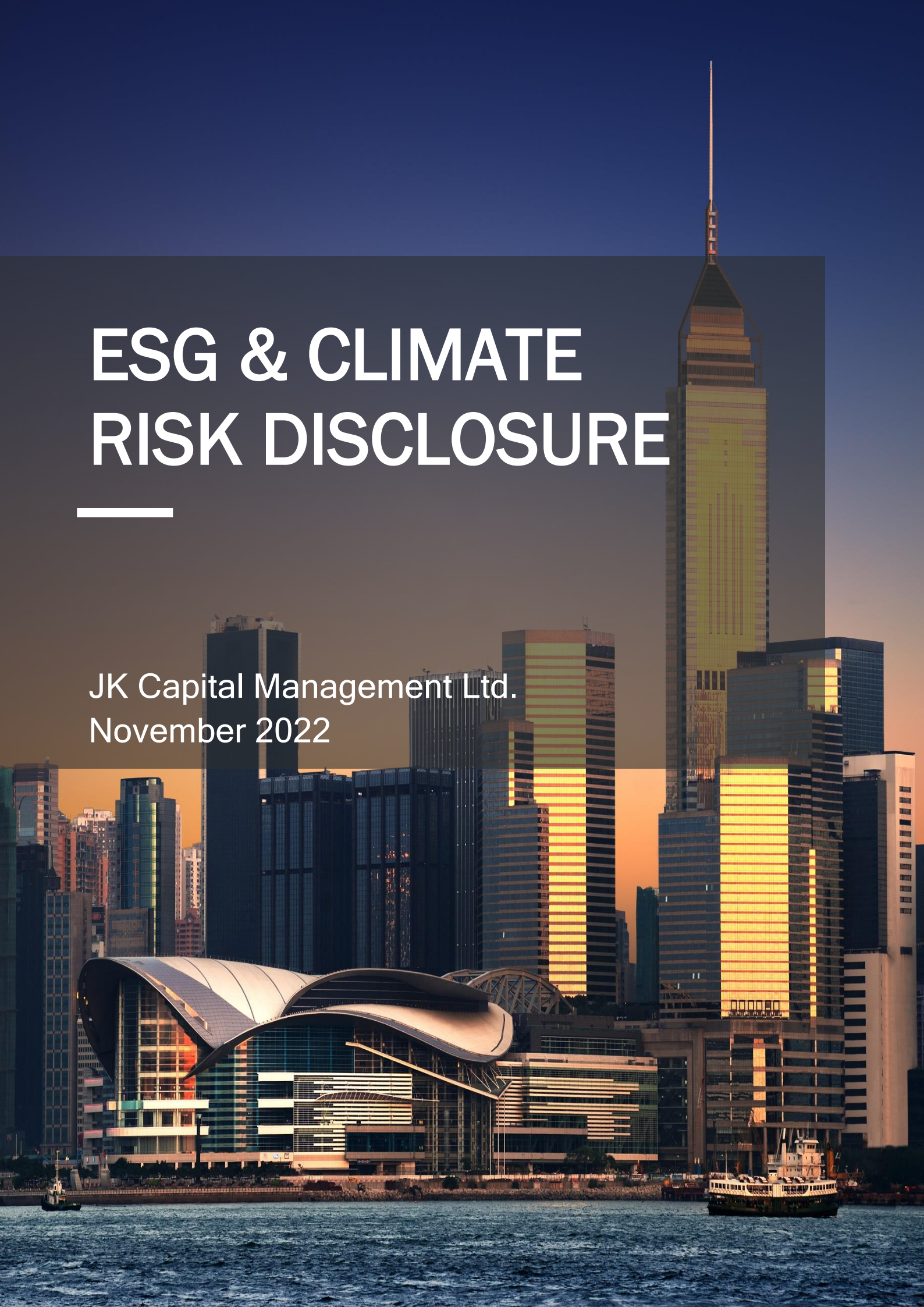


# ESG & CLIMATE RISK DISCLOSURE

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JK Capital Management Ltd.  
November 2022



# ESG Governance

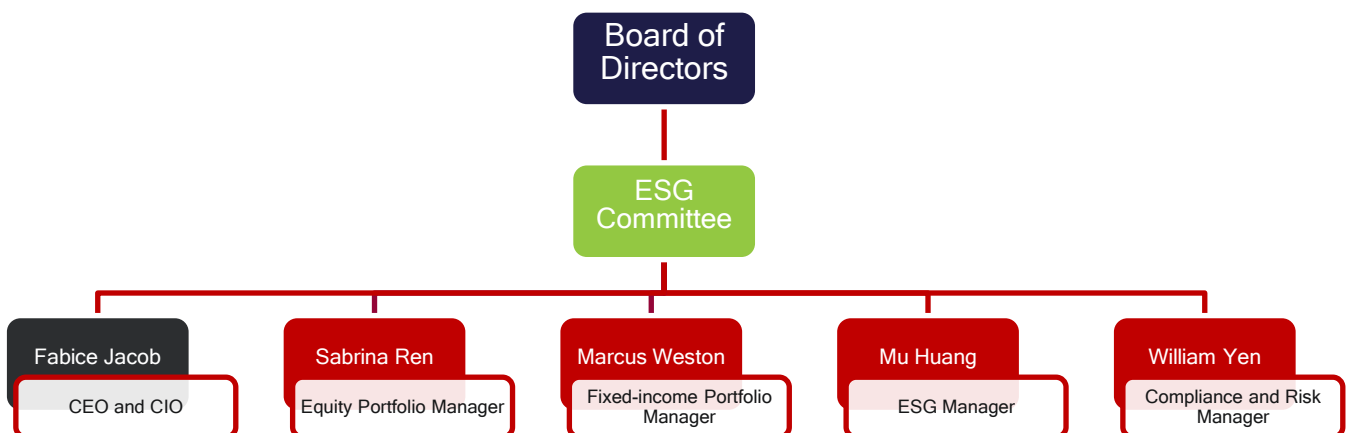
## BOARD OVERSIGHT

JK Capital Management's Board of Directors is chaired by Fabrice Jacob, Chief Executive Officer and Chief Investment Officer of the company, with the role of effectively overseeing the firm's business. It has the ultimate responsibility for the conduct, operations and financial soundness of the firm.

Sustainability-related matters, including climate-related and other ESG risks, form an important component of JK Capital's business.

## GOVERNANCE STRUCTURE

To enhance the governance of activities related to ESG matters, the Board of Directors has established a dedicated ESG Committee to specifically oversee the incorporation of climate-related and other ESG considerations into the firm's investment and risk management processes, as well as monitor progress against objectives/goals for addressing such risks. The ESG Committee is also tasked with reviewing the risk management framework covering climate-related and other ESG risks.



The ESG Committee is chaired by the Chief Executive Officer and Chief Investment Officer of the company, along with other key personnel from both the investment and risk management teams, as shown below.

The ESG Committee convenes on a quarterly basis to be informed of updates and overviews on the impacts of climate-related and other ESG issues on different asset classes, investment strategies, portfolios and individual investee companies/issuers that are under the firm's management.

### **MANAGEMENT OVERSIGHT**

Management accountability of climate-related and other ESG risks is led by the ESG Manager, who supervises and coordinates related matters across JK Capital's various departments and investment teams. With collective efforts of the investment and risk management teams, the ESG team closely monitor the status and progress of efforts to manage climate-related and other ESG risks.

The ESG Manager directly reports to the CEO and informs the Portfolio Managers of the status and progress of efforts to manage climate-related and other ESG risks on a regular basis. Each Portfolio Manager is responsible for coordinating and facilitating ESG-related efforts within his or her team.

# Responsible Investment

## ESG INTEGRATION

The decision to invest in a company is the result of a multi-angle analysis that combines factors that are often totally unrelated, including top-down analysis that focuses on macro-economic outlook, monetary and fiscal policies, currencies strengths and weaknesses, on global trends that take into account geopolitical considerations, as well as national and regional policy directions, among others. Another investment angle is bottom-up, analysing the financials of a company, its market positioning, its competition, and the opportunities it can seize while assessing the risks it is facing.g board members of Hong Kong-listed companies.

The third but equally-important angle is the ESG performance of a company. At JK Capital, a systematic and structured approach has been adopted to incorporate relevant and material ESG considerations into the investment decision-making processes, consisting of the five inter-connected pillars below:

- Negative Screening
- Materiality Analysis
- ESG Profile
- Governance Excellence
- Active Engagement

## NEGATIVE SCREENING

Negative Screening is commonly considered as the first step towards ESG integration. Driven by our core values and by our considerations to mitigate Environmental, Social and Governance risks, JK Capital opted for the implementation of a strict and evolutive [Negative Screening Policy](#) in our investment decision-making processes by excluding the following sectors/regions:

- Controversial weapons
- Tobacco
- Thermal coal
- Regional exclusion

JK Capital utilises global databases to screen its investment universe to ensure that none of the companies under review has had any involvement in the past in any controversial area. When considering an investee company and performing due diligence on its business, the investment team ensures that the company has had no involvement whatsoever in areas which we characterise as being off-limits.

### **MATERIALITY ANALYSIS**

ESG does not follow the principle of “one size fits all” but requires judgment over several areas that are different from one company to another, from one industry to another, and from one sector to another.

Leveraging both external and internal expertise on ESG materiality analysis, JK Capital built a comprehensive set of industry-specific standards that identifies certain ESG topics (including climate-related considerations) that are material and relevant to any given company or sector/industry.

Once the material topics and the specific metrics for a given company are identified, public disclosure together with information obtained from media, databases as well as using the investment team’s knowledge of the industry and of the sector concerned will be utilised to construct a materiality matrix. Such ESG materiality matrix highlights the strengths and weaknesses of the company. It is used for future investment decision-making and engagement activities.

### **ESG PROFILE**

In emerging markets, ESG considerations can be perceived as being of lower standards than that of the Western world. Nevertheless, it shall not stop companies, management, and individuals from rejecting the status quo and from improving such standards. As a responsible investor, JK Capital pays great attention to the progress made by companies over time to the point that we give higher credit to a company that does not have an outstanding profile but that shows year after year that it is dedicated to improving such profile than we do to a company with a good profile but that tends to be complacent about it and no longer show signs of efforts.

On the back of our decades of investment experiences in Asia, JK Capital believes that satisfactory ESG profiles are permanent moving targets. It is the firm’s philosophy that it is more important to understand the trajectory of an

ESG indicator over time than to assess its most recent level through the company's latest disclosure.

Utilising our proprietary ESG research methodology, an ESG profile is created for each company during pre-investment and regularly updated during post-investment to comprehensively assess and monitor a given company's performance on various ESG indicators. Such ESG indicators include but are not limited to, environmental track record (climate change mitigation and adaptation measures, carbon emissions, pollution, waste management, energy efficiency, sustainable production practices), social performance (gender diversity and equality, social inclusion, intellectual property protection, welfare and wellbeing, health and safety, fair labour practices, financial inclusion) and robust corporate governance practices (management quality, board independence, alignment of interests and gender diversity).

## **GOVERNANCE EXCELLENCE**

JK Capital believes that excellent governance practices are the starting point for other considerations that fall under economic, environmental and social aspects. This belief is fully reflected in our investment strategy of investing in companies of high quality and managed by outstanding management teams with exceptional operational and governance track records.

Within our proprietary investment research process, the investment team typically considers the following characteristics to comprehensively assess the governance practices of investee companies:

- Board composition, qualification and diversity
- Management of regulatory, market and other risks
- Management of material environmental, social and governance risks
- Protection of minority shareholder rights and interests
- Alignment of incentives for controlling shareholders, minority shareholders and management
- Labour practices
- Business ethics
- Connected transactions

The investment team closely monitors investee companies' governance performance and uses both quantitative and qualitative assessments to measure improvement. As part of our comprehensive approach to assess the governance practices of the investee companies, the above-mentioned characteristics have also been systematically integrated into our [Proxy Voting Policy](#).

## ACTIVE ENGAGEMENT

A deep analysis ex-ante of our investee companies is not sufficient to deliver long-term risk-adjusted returns to our investors. Ex-post monitoring of our investee companies is equally critical as companies are entities in permanent motion that constantly respond to evolving business environments. The quality of ESG integration within our investment process highly depends on the quality of the relationship we develop with these companies. JK Capital endeavours to build solid and sincere relationships with them by fulfilling our fiduciary duties through active engagement to reach the best sustainable and social standards that our clients rightfully expect from us.

Respectful of diverse company-specific characteristics, JK Capital has adopted a tailored approach to effectively communicate with companies through the following engagement activities:

- Collective engagement
- One-on-one discussions
- Proxy voting
- [ESG publications](#)

More details of engagement activities could be found in our inaugural [Stewardship Report](#).

# Climate-related Risks Management

## CLIMATE-RELATED STRATEGY

To position ourselves ahead of the industry, JK Capital developed its proprietary approach to monitor, assess and evaluate the emission performance of our portfolio companies. We view decarbonisation efforts as one of the most critical elements for incorporating climate-related risks into our investment management strategies and risk management processes.

Adopting a proprietary Greenhouse gas (“GHG”) emissions analysis approach to systematically assess the carbon intensity and decarbonisation efforts of our portfolio companies, the dedicated ESG team at JK Capital monitors the following GHG emissions metrics that align with the TCFD recommendations:

- Total Carbon Emissions
- Carbon Footprint
- Weighted Average Carbon Intensity (WACI)
- Carbon Intensity

In addition to the above quantitative measures, qualitative assessments would also be conducted jointly by the investment team and ESG team to comprehensively examine the company’s decarbonisation efforts.

More details of our proprietary carbon analysis approach could be found in our [Carbon Analysis Whitepaper](#).

## COMPANY-LEVEL ANALYSIS

For company-level carbon analysis, the ESG team utilises the Total Carbon Emissions and Carbon Intensity metrics to closely monitor and assess portfolio companies’ level of carbon emissions, particularly for companies operating in energy-intensive sectors.

In particular, we pay greater attention to companies in the “high” carbon intensity group and those associated with sectors or regions that are currently under heavy environmental regulatory scrutiny. This analysis enables the portfolio managers to better understand both the operational and ESG performances of the company, as well as the company’s outlook.



Below is an illustration of our internal carbon intensity analysis:

		thousand of tons of CO <sub>2</sub> / \$Min or revenues						
Internal Classification		2016	2017	2018	2019	2020	Trend	
Intense	Company 1		1.96	1.80	1.92	2.12		
	Company 2	0.20	0.18	0.17	0.15	0.14		
	Company 3			0.24	0.24	0.24		
	Company 4	1.14	1.03	0.98	0.98	0.89		
	Company 5	0.43	0.45	0.40	0.34	0.35		
	Company 6	0.29	0.25	0.20	0.19	0.17		
Moderate	Company 7				0.02	0.02		
	Company 8	0.00	0.00	0.00	0.00	0.00		
	Company 9	0.06	0.09	0.07	0.07	-		
	Company 10					0.05		
	Company 11	0.01	0.01	0.01	0.01	0.00		
	Company 12	0.04	0.03	0.03	0.03	0.03		
	Company 13			0.00	0.00	0.00		

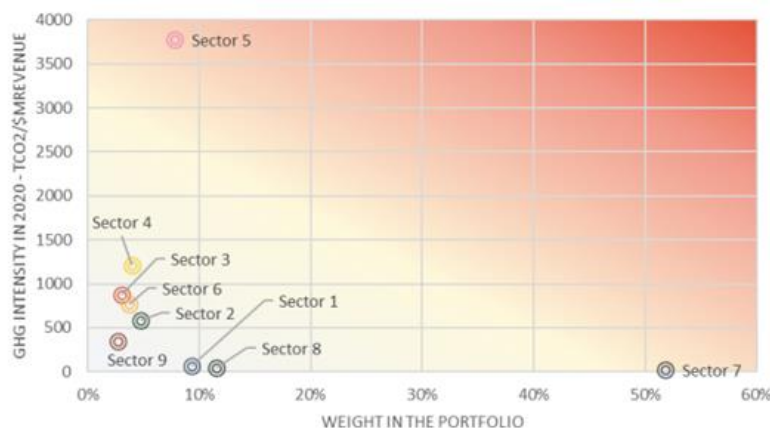
*Equity Strategy: Carbon intensity per company (in kt of CO<sub>2</sub> / \$m of revenues)*

Incorporating each portfolio company’s carbon emission level and regulatory requirements in respective sectors/regions, the investment team has been conducting climate-risk analysis on an ongoing basis. The climate-related risks analysis adopts the TCFD framework by categorising transition risks and physical risks and aims to provide the team with a more comprehensive picture of each investee company’s risk profile.

**PORTFOLIO-LEVEL ANALYSIS**

For carbon analysis at the portfolio level, our proprietary approach focuses on security weightings in perspective of their respective GHG intensity (in tCO<sub>2</sub>/\$m of revenues) or, in the case of our fixed-income strategy, by country weighting and by sector weighting.

The series of analyses and illustrations above empower portfolio managers to identify the main carbon footprint contributors of the portfolios. Combining this micro-approach with portfolio-level metrics fosters a comprehensive understanding of the carbon-related risks attached to our respective strategies and provides an in-depth analysis that allows us to scale our engagement with our investee companies.



*GHG Intensity vs weight in the fixed income strategy (per sector)*